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RHEHNSC/WHITE HOUSE NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
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SENSITIVE

STATE FOR WHA/BSC, INL/LP (JIM HIDES), AND EB/IFD/OIA
STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR LYANG
NSC FOR SUE CRONIN
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
SOUTHCOM FOR POLAD

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, SEPTEMBER
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REF: A. ASUNCION 0869
[1](#)B. ASUNCION 0992

[1](#)1. (U) SUMMARY

-- If you Fail To Compete...
-- Try a Winning Formula
-- MANG Commander Visits Paraguay
-- Paraguay Signs INL Amendment

IF YOU FAIL TO COMPETE...

[1](#)2. (U) Paraguay fares among the worst in the world - ranking 106th in a list of 125 countries surveyed (in 2005 Paraguay was ranked 102) in the World Economic Forum's global competitiveness index just released. Guyana was the only Western Hemisphere nation to come in below Paraguay. The WEF index is the latest sour note for Paraguay in a veritable hit parade of other key composite indexes recently released - including a World Bank Governance perceptions survey on corruption that ranked Paraguay dead last among all Latin American countries. The \$34.9 million MCA Threshold Country Program that USAID just launched with the GOP is directed at attacking the roots of systemic corruption, through the reduction of impunity and increased business formalization.

TRY A WINNING FORMULA

[1](#)3. (U) Meanwhile, "Paraguay Vende," USAID's highly-visible business development program, offers some hope regarding the potential for the growth of legitimate business. The program has helped small and medium-size enterprises, including firms in rural areas, attain increased total sales of over \$25 million, attract more than \$2 million in additional investment, and create jobs over the last three years. It has garnered positive attention in the media and caught the eye of top policy-makers. Paraguay's Minister of Industry and Commerce, Jose Ibanez, recently publicly declared his interest in building on the USAID project, including the possibility of securing GOP funds to expand the model to reach even more businesses.

MANG COMMANDER VISITS PARAGUAY

¶4. (U) The Massachusetts National Guard (MANG) Commander Brigadier General Oliver Mason, along with several other MANG officials, visited Paraguay September 25 to 29, as part of SOUTHCOM's State Partnership Program (SPP). The purpose of the SPP is to help build military-to-military and civilian-to-civilian exchanges on issues of mutual interest and benefit. General Mason met separately with VP Castiglioni, Armed Forces Commander General Jose Kanazawa and Minister of Interior Rogelio Benitez, as well as each of the chiefs of the military branches. General Mason highlighted the importance of continued exchanges, particularly on the civilian side focusing on areas to include national disaster response, police reform, and job creation. General Kanazawa also presented General Mason with the Armed Forces Medal.

PARAGUAY SIGNS INL AMENDMENT

¶5. (SBU) Paraguayan FM Ruben Ramirez and Charge signed the Amendment to our 2004 Letter of Agreement on INL funds on September 28. The agreement provides for \$494,000 in assistance to support GOP efforts to combat narcotics trafficking, money laundering and IPR violations. The GOP appreciates U.S. assistance but notes our 2006 contribution is less than half of what we provided in 2004. Meanwhile, Paraguay continues to make unprecedented progress on both the CN and IPR fronts with major seizures and key arrests. The Anti-Drug Secretariat (SENAD) and the Specialized Technical Unit (UTE) work in very close cooperation with us and represent two of Paraguay's strongest institutions in the law enforcement field. We will need to increase our CN funding

significantly if FY 2007 as we expect to run out almost all of our pipeline cash by the end of FY 2007.

FITZPATRICK